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DOMESTIC PROBLEMS AND ECONOMIC POLICIES IN AFRICAN LEAST DEVELOPED COUNTRIES

Prepared by the ECA secretariat

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Introduction

1. This paper analyses the development problems and policies of the African least developed countries in the past and examines their policy options and imperatives in the 1980s and beyond. Three sets of factors impose serious constraints on the development policies of these countries. Firstly, the meagre per capita income which is far below basic needs, the high proportion of the population in the subsistence sector, the limited development of manufacturing, the weak institutional and physical infrastructure, the acute scarcity of skilled manpower at all levels, the extremely low level of exports per capita and geographical or climatological handicaps (such as land-lockedness, small size and remoteness, drought and desertification, high exposure to cyclone or flood disaster) are among the most formidable structural impediments. Secondly, domestic resources are extremely tight, allowing only limited flexibility for economic management. Thirdly, fluctuations in external resources add seriously to the sharp fluctuations in domestic resources. Under the circumstances, the traditional policy instruments - whether direct or indirect - are of limited efficacy in dealing with the development and adjustment problems of the African least developed countries, and, for that matter, there is little that most of these countries could do unilaterally to cope with their present predicament.

2. The paper is divided into five sections. In section I, the structural characteristics of African least developed countries are outlined, while section II is devoted to an evaluation of their economic performance in the 1960s and 1970s. These, together with the analysis of their general development issues and constraints in section III, form the necessary background to the discussion of their domestic economic policies in the 1970s in section IV and of their prospects and policy options and imperatives for the 1980s and beyond in section V.

I. Structural characteristics of African least developed countries

3. The group of least developed countries in Africa consists of 20 countries[1/] or about two fifths of the total number of countries in the ECA region. Of the 20, 11 are land-locked [2/] and two are island countries [3/]. In terms of population, African least developed countries collectively account for about 30.4 per cent of the population of developing Africa. On a country basis, the population size differs remarkably among the least developed countries, ranging from 0.3 million in the Comoros to 28.8 million in Ethiopia. Of the 20 countries, two had populations of less than half a million people each while another 11 each had populations of between half a million and five million people. Only in seven countries was population size above five million. Population density per km^2 for the group varies from 1 in Botswana to 159 in Rwanda with a mean of about 41.

1/ Benin, Botswana, Burundi, Cape Verde, the Central African Republic, Chad, the Comoros Ethiopia, the Gambia, Guinea, Lesotho, Malawi, Mali, the Niger, Rwanda, Somalia, the Sudan, the United Republic of Tanzania, Uganda and Upper Volta.

2/ Botswana, Burundi, the Central African Republic, Chad, Lesotho, Malawi, Mali, the Niger, Rwanda, Uganda and the Upper Volta.

3/ The Comoros and Cape Verde.

Thus by implication, the least developed countries are characterized by relatively small and scattered populations which, in part, have limited their ability to take advantage of large economies of scale in their economic and social development. There is a dominant proportion of children under 15 in the least developed countries and a potential labour force of just over half of the total population. At the present average rate of growth of 2.5 per cent, population in the group as a whole will double every 29 years. These two factors imply heavy expenditures on education and place a heavy burden on one half of the total population.

4. Adverse demographic features apart, African least developed countries rank as the weakest countries on the continent according to a number of critical economic and social indicators of a longer-term structural character, notably income levels, literacy and share of manufacturing in total output. The following are the general structural characteristics of African least developed countries. 4/

(a) Very low per capita income with the bulk of the population far below a minimum standard of basic needs;

(b) Very high proportion of the population in the subsistence sector;

(c) Extremely low agricultural productivity and weak agricultural support institutions, necessitating heavy dependence on imports of food;

(d) Extremely low level of exploitation of natural resources - minerals, energy, water, etc. (for want of knowledge or lack of financing and skills for their development);

(e) Very limited development of manufacturing industry;

(f) Extremely low level of exports per capita and, even with aid flows, very limited absolute availabilities of imports;

(g) Acute scarcity of skilled personnel at all levels;

(h) Heavy dependence on expatriate in trade and other service sectors;

(i) Very weak institutional and physical infrastructure of all kinds (including administration, education, health, housing, transport and communications, etc.)

(j) One or more major geographical or climatological handicaps in most of the least developed countries, such as land-lockedness, small size and remoteness, propensity to drought and desertification, or high exposure to cyclone or flood disaster.

5. These negative structural characteristics are no doubt some of the major sources of the economic difficulties and relative poverty of the least developed countries. They define, in a very real sense, the limits of growth and economic performance in these countries while posing in themselves severe constraints to further social and economic development, partly by narrowing the scope for discretionary domestic economic policies and by rendering policy measures largely ineffective.

4/ UNCTAD document TD/240, February 1979.

II. Economic performance in the African least developed countries, 1960-1979

6. African least developed countries performed very poorly in the 1960s and 1970s. During the 1960s, they realized, as a group, only an average annual growth rate of GDP at constant 1970 prices of a modest 3.7 per cent overall or 1.3 per cent on a per capita basis. This rate slipped further during the 1970s to a dismal 3.1 per cent overall or 0.4 per cent on a per capita basis. Thus the average for the two decades taken together was a low figure of 3.5 per cent or 1.1 per cent on per capita basis. Except for a few cases, growth in the majority of the countries either stagnated or decelerated, and at this dismal rate of growth, it will take 65 years for the least developed African countries as a group to double their extremely low level of per capita income estimated at $US 100 in 1979 at 1970 constant market prices and exchange rates. The growth performance in 1979 was only marginally better than the average for the 1970s, and, judging from past performance, the prospects for the African least developed countries in the 1980s seem bleak.

7. The overall averages, startling as they are, however, conceal wide disparities in performance among the 20 least developed countries of Africa. While the per capita income was less in Uganda in 1979 than in 1960, in real terms, an average annual rate of increase of 3.2 per cent in per capita income was recorded in the United Republic of Tanzania in the period 1960-1979. In reality however, only Botswana and Malawi of the 15 least developed countries for which data was available and possibly of all the 20 African least developed group have been able to record growth rates compatible with the per capita income growth of 3.5 per cent targeted for the Second United Nations Development Decade. This was due largely to the rising investment ratios and capital efficiency in those two countries. In addition to Uganda, another five countries, namely the Comoros, Ethiopia, the Central African Republic, the Gambia and Rwanda experienced either complete stagnation or deterioration in their per capita income levels, largely because of the poor performance of agriculture. While overall performance in the second half of the 1970s has been generally better, at a growth rate of 3.6 per cent annually, mostly because of the better performance of agriculture in the majority of least developed countries and the usual fast growth of the services sector, a few countries, e.g. the Gambia, the Comoros and Uganda, to mention only the most affected, have continued to exhibit serious retardation in growth as a result of bad weather conditions or other local influences, while countries like the Sudan, the Central African Republic and United Republic of Tanzania have done only slightly better than before. In general, the poorer least developed African countries performed more poorly during the 1970s. For lack of diversification, the poorer economies had less resources and capacity to absorb shocks from sudden shifts in their natural conditions or in external economic impacts.

8. Performance in the agriculture sector has been particularly dismal in the 1960s and 1970s, owing to a series of structural constraints and bottlenecks which in part have operated to prevent agricultural activities from responding to incentives and domestic policies. Since the agricultural sector is however the mainstay of the economies of African least developed countries, accounting for about 50 per cent of the total output in the least developed African countries as a group in the period 1960-1979, its poor performance is one of the most significant factors in their disappointing overall economic performance. Value added in the agricultural sector rose by an average of 1.4 per cent per annum during the 1970s compared to 1.8 per cent in the 1960s. The period 1972-1975 was particularly difficult for agriculture because of unfavourable climatic conditions.

Between 1975 and 1979 there was an acceleration in the rate of growth to 2.3 but the average for the two decades taken together was 1.6 per cent per annum. This means that, on a per capita basis, agricultural output declined in the whole period at an average annual rate of 0.7 per cent. In the Sudan the average annual rate of decrease was 2.1 per cent in per capita agricultural output while in Ethiopia the rate of decrease was 0.5 per cent per annum. The widespread droughts of the 1970-1975 period and subsequent intermittent dry spells and generally unfavourable weather conditions together with the lower level of investment and inappropriate agricultural and pricing policies in many of these countries seem to be primarily responsible for the deterioration in agricultural production. Only three countries, namely Malawi, the United Republic of Tanzania and the Gambia could achieve the target of 4 per cent growth in agriculture set for the Second United Nations Development Decade. The growth rates achieved by other countries were invariably lower than their rates of population growth.

9. The manufacturing sector in the African least developed countries remains small, averaging 9.1 per cent of GDP in the 1970s compared to 11.1 per cent for other developing African countries. Growth in this sector deteriorated from 8.8 per cent in the 1960s to a mere 3.7 per cent in the 1970s, which suggests a deterioration in per capita gain from 5.1 per cent to a mere one percentage point during this period. None of the African least developed countries has been able to achieve the target growth rate of 8 per cent, and only six countries achieved growth rates of 4 per cent and above, namely Botswana (7.4 per cent), Malawi (6.5 per cent), Lesotho (5.5 per cent), the United Republic of Tanzania (4.7 per cent), the Sudan (4.7 per cent) and Mali (4.1 per cent). The rest of the countries barely kept pace with their population growth rates. Four countries recorded negative growth rates, however, namely Uganda (-5.7 per cent), Somalia (-3.8 per cent), the Gambia (-1.2 per cent) and Burundi (-0.4 per cent).

10. Judging from the trends in output per head in the commodity producing sectors (agriculture plus industry) in the 1970s, it is obvious that the least developed African countries as a group achieved no positive structural changes. Indeed, almost the whole per capita increase in output in the 1970s came from the services sectors since the per capita output of the commodity producing sectors actually decreased. The elasticity of manufacturing with respect to the growth of agricultural output fell significantly from 4.9 per cent in the 1960s to a mere 2.6 per cent in the 1970s, indicating the absence of any substantial structural linkages even within the commodity sectors.

11. For the least developed African countries as a whole, growth in consumption was moderate, but higher than the growth of gross domestic product. Per capita private and government consumption increased by 1.2 and 2.3 per cent per annum respectively in the period 1970-1979 while total consumption per capita grew as a whole at an average annual rate of 1.4 per cent over the same period. The share of domestic savings in GDP rose marginally from 9.5 per cent in 1960s to 10.2 per cent in 1970 but declined seriously thereafter to 8 per cent in the 1970s and 6.8 per cent in particular in 1979. The per capita savings for the African least developed countries as a whole at constant 1970 prices was a mere $US 6 in 1979 compared with $US 10 in 1970. Among African least developed countries, the structure of expenditure on GDP indicated that the share of consumption in total GDP

was higher in the lower income groups, 5/ averaging around 96.1 per cent for group III countries and 91.6 per cent for group IV countries. The share of consumption in total GDP for group I countries was 86.7 per cent. Similarly, the marginal propensities to consume were estimated at 0.75 for group I countries, 0.87 for group II countries, and as high as 0.97 and 0.99 for groups III and IV countries respectively. These trends imply low saving rates for the poorer African least developed countries and consequently lower growth in investments. Thus, while investments rose by about 10.3 per cent for group I as a whole, the average investment growth in groups III and IV was merely 2.5 and 0.8 per cent per annum respectively.

12. The share of fixed capital formation in GDP rose from 10.7 per cent in 1960, to 13 per cent in 1970 and 13.6 per cent in 1979 which, if compared with the share of domestic savings in GDP of 9.5 per cent in 1960, 10.2 per cent in 1970 and 6.8 per cent in 1979 respectively, shows that the share of external assistance in GDP rose from 1.2 per cent in 1960 to 2.8 per cent in 1970 and 6.8 per cent in 1979. With the limited resource capacity and base in the African least developed countries and with the savings ratio remaining either stagnant or on the decline in the African least developed countries as group, an increasing proportion of the resources required for building up domestic productive capacity had to be obtained from foreign sources. External assistance to the least developed African countries as a whole increased from $US 266 million in 1970 to $US 906 million in 1979 at constant 1970 prices, at an average annual rate of 14.6 per cent in real terms.

13. The above developments are, of course, necessarily reflected in the import elasticity with respect to GDP which was 0.3 for every one percentage point increase in output in the 1960s and rose to 1.7 in 1970s.

14. Over the decade of the 1970s, exports grew at a modest 3.8 per cent yearly compared with 5.3 per cent annually for imports, excluding food imports, and both barely rose above the rate of growth of GDP of 3.1 per cent yearly during this period. Although the 1970s started with huge balance-of-payments deficits, the payments position, however, improved slightly in the middle years of the decade, following the rise in the prices of cotton and coffee which turned out to be a temporary phenomenon. In the last two years or so of the decade almost every country in this group suffered larger payments deficits, mainly because of the increase in the prices of imports.

5/ In a recent unpublished ECA study on the problems and prospects of the African least developed countries these countries were classified into the following groups according to their per capita GDP in 1977 at 1970 constant prices:

Group I ($US 100 per capita and above) Botswana, the Sudan, the Gambia, Lesotho;

Group II ($US 100-109 per capita) the Niger, the Central African Republic, Somalia, Malawi, Uganda, United Republic of Tanzania;

Group III ($US 75-79 per capita) Benin, Guinea, the Comoros, Cape Verde, Chad;

Group IV (Below $US 75 per capita) Ethiopia, Burundi, Rwanda, Mali, the Upper Volta.

15. In volume terms, exports from these countries represented about 9.2 per cent of the total exports of developing Africa in the 1970s and this proportion declined to 7.2 per cent in 1979. The purchasing power of exports, however, improved marginally by 1.4 per cent yearly meanwhile, compared with 6.5 per cent for developing Africa as a whole. Small as it is, this increase in the purchasing power of exports would not have been possible had it not been for the improvement in the prices of cotton and coffee, the principal export crops which helped to reverse the annual decline of 5.4 per cent in export prices in the five years preceding 1976. Imports, which were generally higher than exports throughout the decade, constituted about 10 per cent of the total imports of developing Africa as a whole and 19 per cent of those of non-oil-producing developing African countries. The structure of imports shows a growing share of foodstuff imports, which now constitute about 16 per cent of the total.

16. In addition to growing balance-of-trade gaps the majority of the least developed African countries have had to contend with persistent deficits in the services account since virtually all these countries depend heavily on foreign services to move their trade. The goods and services account of the balance of payments has, therefore, been in permanent deficit for the group as a whole. To contain the current deficit many countries have had to draw down international reserves heavily and resort increasingly to officially contracted loans. They have thus had to incur a rising foreign debt at a time when their rate of economic growth limited their ability to service such debt.

17. Between 1970 and 1979 the total outstanding disbursed external public debt of the least developed African countries increased more than fourfold to reach about $US 7.6 billion. The disbursed debt was relatively concentrated, with Guinea, the Sudan and the United Republic of Tanzania together accounting for 52.7 per cent of the total in 1979. A number of small countries, notably Burundi, the Gambia and Lesotho, had a relatively limited outstanding debt liability. The rapid growth in debt was associated with the rising volume and incidence of debt service liabilities. Total debt service payments for the group of African least developed countries grew from $US 118.5 million in 1970 to $US 682 million in 1979, which represented about 20 per cent of the value of exports. This critical debt position is underscored by data on debt/export ratios and debt service/export percentages. In 1979 only three least developed African countries, Botswana, Lesotho and Uganda, had a debt/export ratio below unity. The following countries had the greatest difficulty in meeting service payments from export earnings judging from the servicing ratio; Guinea (50.8 per cent), the Sudan (39.1 per cent), Chad (27.6 per cent), Mali (24.4 per cent), and Benin (24 per cent). The average servicing ratio for all least developed countries was 17.3 per cent in 1979.

18. On a per capita basis, the average amount of financial flows for African least developed countries was only half the regional average of $US 36 in 1979. The per capita average for the non-oil-exporting non-least developed countries reached 54 dollars in 1979. At the end of the 1970s, total concessional aid accounted for about 45 per cent of total flows into African least developed countries against about 52 per cent for all developing Africa and 58 per cent for other non-oil-exporting countries. Aid to the least developed countries is very unequally distributed. In 1979, of the total net resource flows to these countries of $US 3.6 billion. $US 1.4 billion went to only two countries. However, DAC countries have greatly increased the grant element of ODA to the least developed countries, and grants now account for over 80 per cent official aid from DAC countries.

III. Development issues and constraints in African least developed countries

19. A number of adverse local and international economic factors combined in the 1970s to undermine seriously the already low capacity and resource base of African least developed countries for development. Among these were widespread and protracted drought (or sometimes floods), unfavourable shifts in international commodity prices and markets and the generally unfavourable world economic climate. In addition to these untoward forces, which held down the growth of the African least developed countries in the 1970s to one of the lowest and most disappointing levels in the last three decades, there are several other critical problems and issues of general development and structural handicaps that have historically constrained African least developed countries, and which must of necessity be taken into account and placed in proper perspectives in any realistic assessment of their growth process and extremely difficult economic situation.

20. Against this background, the problems of limited absorptive capacity and leverage for economic growth, drought and increasing food deficits and balance-of-payments disequilibrium were necessarily the key development issues in African least developed countries, with resource mobilisation, efficiency of domestic investment and resource use and allocation as largely secondary issues.

21. Internally, African least developed countries are gravely handicapped by a limited resource base, inadequate infrastructure inherited on independence, excessive dependence on one export commodity and lack of communications both internally and with the rest of the world. The land-locked countries among them encounter special difficulties in the transit of imports and exports, as their lack of access to the sea has tended to increase the costs of international transport services to them. The African least developed island States have their own set of problems, arising from their size, their isolation, the dispersion of their populations and their inability to take advantage of large-scale economies in their social and economic development. In a few African least developed countries, political instability, civil war and hostilities have caused considerable social and economic damage and dislocations. Changes in economic systems have taken place in a number of African least developed countries, putting into question the role and place of the private sector in economic life, and resulting in a few cases in the virtual neglect or emasculation of the organized segments of private enterprise. Virtually all African least developed countries are constrained by inadequacies of local financial resources and foreign exchange earnings; shortages of skill and manpower and of other human infrastructure; narrow markets and deficiencies in marketing and distribution.

22. The planning machinery in most African least developed countries is still at an early or rudimentary stage of development, and hardly includes arrangements for ensuring popular participation in the identification and execution of projects and proper co-ordination. In addition to weak planning systems and low income levels, resource mobilisation and management problems are further complicated by defective administrative structures in the form of a weak civil service which, for the most, lacks trained and appropriate personnel, and by lack of information on domestic resources. The difficulties of national financial resource mobilisation are aggravated by the large subsistence and informal sectors in these countries, about which little is known or for which appropriate fiscal tools hardly exist. This, added to the large elements of public consumption and distorted patterns of private consumption, has meant that the ratio of gross national savings to gross domestic product has either remained low or declined, and development plans have been predicated on large but unrealised inflows of resources from abroad.

23. In spite of its position as the mainstay of the economies of African least developed countries, the agricultural sector remains the most backward sector, with little or no advantages of economies of scale. While the land/man ratio in the least developed countries is better than the average for African developing countries as a whole, in terms of irrigated areas the ratio is lower. This is also true for the consumption of fertilizers, which is particularly reflected in the very low yield of cereals per hectare of land. For instance, while the average yield of cereals per hectare of land was 988 kilogrammes for developing Africa as a whole in 1978, only Burundi, the Comoros, Malawi, Rwanda and Uganda exceeded the African average. With the growth of agricultural output lagging far behind population growth in the 1970s, most of the African least developed countries were unable to sustain the food consumption needs of their growing populations or fulfill the objectives of self-sufficiency and security in food. The resulting finance and food shortages have led to substantial increases in food imports thereby compounding their already serious balance-of-payments difficulties.

24. The influence of agricultural policies apart, the serious lag in agricultural performance in the African least developed countries in the 1970s can be traced to a variety of unfavourable factors, the most important of which are the adverse weather conditions and widespread drought, encroachment of the desert, prevalance of uneconomic production units, high rural population, crude technology and scarcity of modern inputs. Common to the African least developed countries as a group is the existence of large but inefficient subsistence sectors in agriculture, the problems of declining or stagnating crop yields and low agricultural productivity, severely limited irrigation capacities arising from the existence of sizable tracts of desert in countries such as the Niger, Chad, Ethiopia, Mali, the Central African Republic and Somalia, and deteriorating positions on the commodity export markets.

25. The industrial sector remains largely undiversified and dominated by light industries. Typical of countries at the early stages of industrial development, manufacturing is heavily dominated by production of consumer goods such as food processing, beverages, tobacco and textiles. Even so, the degree of fabrication is rather crude, and most of the countries are not in a position to increase local processing of their primary commodities beyond the limits imposed by the severe shortages of capital and the availability of appropriate skills and the much-needed technology. Production of advanced engineering goods and fabricated metal works is virtually non-existent.

26. Expansion of manufacturing in African least developed countries is limited by the small size of the domestic markets and demand elasticities arising from low levels of purchasing power. This, added to the problems of inefficient management and of shortages of imported raw materials, spare parts and maintenance and storage facilities, has led in many cases to situations of excess manufacturing capacity and therefore of waste of investment resources and low value added. With their high import content, the few industries in the African least developed countries have generated more instead of less dependence on the industrial economies, and led to a rather superficial process of high cost industrialization.

27. Both the land holding systems in African least developed countries and the deteriorating performance of the agricultural sector in which the bulk of the labour force is engaged explains in part the limited employment opportunities in those countries in the 1970s. The high proportion of young people in the population of African least developed countries implies a rapid rate of increase of the labour force, while job opportunities are scarce in the urban areas not only as a result of the poor performance (and in the extreme case of Uganda, the collapse) of the manufacturing sector, but also because of the adverse influence of tendencies to use capital-intensive techniques in complete disregard of the relative prices of labour and capital.

28. There is a serious unemployment problem in almost all African least developed countries, and this problem has been aggravated with the very rapid process of urbanisation. In addition to direct unemployment, there is high and widespread underemployment in the rural areas where labour is hardly fully utilized. While the covert unemployment problem is essentially a structural problem which requires long-term solutions, the continuous rise in open unemployment makes the unemployment problem a leading and pressing social problem and issue in African least developed countries. The paradox lies in the co-existence of vast and growing unemployment with acute and crucial shortages of skilled and trained personnel of all kinds and levels in the public and private sectors. With widespread unemployment and underemployment in African least developed countries, and a high rate of inflation, it is not surprising that mass poverty is widespread in African least developed countries. Available data on income distribution coupled with that on per capita income show that mass poverty is more widespread in the least developed than in the non-least developed African countries. The estimates show that the destitute (i.e. those who are seriously below the poverty line), and the seriously poor together form about 70 per cent of the total population with their share in the least developed countries being decidedly higher than the average for African developing countries as a whole. This underscores the fact that measures for the eradication of poverty are urgently needed in the least developed countries. The widespread mass poverty in these countries stems from the low level of per capita income rather than from greater differentials in income distribution. The Gini Coefficients show that income distribution in the least developed countries is less pronounced than in the non-least developed African countries and the root cause of mass poverty, income inequalities and unemployment is the seriously inoptimal human resource utilization prevailing in most of the countries. 6/

29. Inflationary forces were generally at work in African least developed countries in the 1970s, pushing the consumer price index in most cases into the double digits. Excess demand, resulting from wage demands, increased government consumption expenditure, supply irregularities and inefficient stock management are some of the factors which have exerted pressure on the general price level in the African least developed countries.

30. The low rate of commodity production and economic expansion and the enormous monetary expansion through deficit financing have naturally exerted direct pressure on the price levels. Money supply, broadly defined, rose at an average annual rate (simple average) of 11.8 per cent during 1967-1972 in some 16 African least developed countries.

6/ See Survey of Economic and Social Conditions in Africa, 1978-79, Part I, Section B, E/CN.14/743, March 1980, pp. 82-177.

In 1972-1976, the growth rate accelerated to 23.8 per cent yearly but decelerated to 17.8 per cent yearly between 1976-1979. With accelerated monetary expansion during 1972-1976, consumer prices rose at an average annual rate of 14 per cent. There were, of course, other inflationary pressures at work. The rates of monetary expansion were reduced during 1976-1979 but consumer prices still accelerated to above 15 per cent yearly during the period largely because of the slow growth of real output, the poor performance of agriculture, and the large rise in the prices of imports. In almost all African least developed countries, the high rates of domestic price increases have been reinforced and sustained in part by the escalation of imported inflation largely attributable to the increases in the prices of oil and other imported manufacture.

31. On a per capita basis, the average rate of energy consumption in the African least developed countries is only still a fraction of the levels for developing African countries as a whole. But this is largely a reflection of the prevailing relatively low levels of industrialization, telecommunications, rural electrification, transport and urbanization. The share of oil imports in total export proceeds has also risen much more slowly in African least developed countries than in African developing countries as a whole. Compared with the rising share of food imports as a percentage of the export earnings of the African least developed countries themselves, the energy import bill is not the most serious source of their balance-of-payments problems. The oil import bill of African least developed countries as a group rose from $US 182 million in 1973 to an estimated $US 837 million in 1980, or as a proportion of export proceeds, from 6 per cent to 10.7 per cent. This compares favourably with the increase in the oil import bill of all non-oil-exporting African developing countries from $US 0.8 billion or 8.2 per cent of export proceeds in 1973 to $US 7.4 billion or 29.2 per cent of export proceeds in 1980. All this would tend to suggest that African least developed countries are better off than other African non-oil-exporting countries as far as the energy crunch is concerned. The fact however is that this ignores the extremely serious situation in some least developed countries such as the United Republic of Tanzania, Ethiopia and the Sudan with regard to the balance-of-payments implications of oil imports and the particular constraints imposed on the adjustment process by the general inflexibility of resources in poverty-stricken countries. In any case, the overall burden and balance-of-payments implications of the triad of food imports, energy imports and debt servicing are not significantly different for African least developed countries and other non-oil-exporting countries.

32. In reality, the energy problem is no less serious for the African least developed countries in a structural sense. Their energy production levels are invariably lower than consumption, thus constituting one of the weakest points in the structures of these countries. Most of them rely generally on imports for their petroleum products and for energy on electricity imported from neighbouring countries or electricity generation from thermal plants. The only exceptions are the Sudan, Uganda and Malawi, with sizable hydro-electric power supply and Botswana with coal deposits. Of the African least developed countries, only Benin produces oil in very small quantities, and only a few countries, including the Sudan, Ethiopia and the United Republic of Tanzania have any capacity for refining petroleum. The land-locked African least developed countries are affected not only by crude petroleum price increases but also by the added problems of increasing internal transport costs. With the increasing pace of urbanisation in these countries and as industrialization progresses, their energy requirements are bound to increase and probably pose serious problems for their balance of payments and further economic development if nothing is done to increase domestic sources of supply.

33. The chronic payments problems of the African least developed countries continued to be a major constraint on their economic development in the 1970s as was in the past. Although the malaise affected some other developed and developing countries as well, the predicament of the African least developed countries seems more serious and debilitating. Their capacity to pay for the much needed imports for capital formation and necessary consumption has also been seriously inhibited by the sluggish growth of their exports, the unfavourable shift in their terms of trade and the hardening foreign assistance terms. Along with the external disequilibrium existed a widening domestic imbalance covered through increased recourse to the banking system. This, with the sluggish growth of the economies ended up the majority of the countries in stagflation.

34. The payments problems of the African least developed countries could, by and large, be traced back to two main reasons: domestic and external factors. The external factors, affecting the terms of trade, include - particularly after 1973 - the increase in the prices of oil and manufactures, the restrictive practices of the developed economies and a generally unfavourable international economic climate. As most of the narrow range of commodities exported by the African least developed countries are not covered by commodity agreements, and facing a buyer's market in the developed countries, they had to contend with whatever prices offered them, with demand for their commodities remaining always a function of the level of economic activity and adjustment requirements of the former group. This helps in part to explain the extreme fluctuations in the export proceeds of the African least developed countries. Occasional disruptions in transit trade routes also often affect the trade performance of a number of the land-locked countries causing delays and forcing, sometimes, resort to costly aid freight.

35. The domestic factors affecting the balance of payments are numerous and perhaps more challenging. To mention only the most important, the structural limitations of these economies resulting in what are generally terms fundamental balance of payments disequilibria. These include, inter alia, rigidities in production patterns, pricing and incentive policies, institutions and marketing support facilities, accentuated sometimes by climatic handicaps. Most of the economies are mono-crops or depend on a small package of closely competing exports of primary products. In addition, rampant inflation is eroding the competitiveness of their exports and, together with overvalued national currencies, are causing general economic distortions.

IV. Economic policies in African least developed countries

36. As mentioned before, the position in African least developed countries is such that the scope for development policies is extremely circumscribed while economic policy measures are generally rendered ineffective by the socio-economic milieu. In spite of those limitations, the general policy orientation and direction in African least developed countries in the 1970s would appear to have been in the direction of reducing the vulnerability to external pressures via sustainable growth and diversification. To this end, the emphasis, as evident from the development plans and budget documents of the African least developed countries was on agricultural development, particularly food production, the development of manufacturing, and of transport and communications. In a few countries such as the Niger, where the potential for mining appears to be considerable, efforts were also made to exploit the mineral resources. The general objective of agricultural development in African least developed countries was to lessen the impact of drought and other climatic variations, and, in addition, improve productivity and food self-sufficiency. The objectives of agricultural development were indeed intertwined with those of industrial development since the latter was expected to create and expand further the opportunities for employment and enhance economic diversification and demand for agricultural raw materials. The improvements in transport infrastructure and links were calculated to lower transport costs on external trade and reduce the geographical isolation of individual countries.

37. The enunciation of development objectives is however one thing; their realisation through the pursuit of consistent and meaningful policies is another. As already indicated, the economic environment and resource base in least developed African countries is anything but favourable to sustained economic growth and development. In addition to adverse objective circumstances, however, the realisation of development objectives in African least developed countries have in most cases been vitiated and hamstrung by misplaced policy emphasis, the pursuit of wrong and inappropriate policy measures and, in a few cases, the lack of even the basic capacity for policy formulation and effective implementation. In a country like Uganda, for example, it has virtually been impossible to implement any consistent internal development policies in the 1970s. The Ugandan Development Plan, 1972-1976, was never implemented, due to a change of government, while the Three-year Action and Economic Rehabilitation Programme, 1977-1978 to 1979-1980 was disrupted by the civil strife which was accompanied by considerable destruction, looting and political instability. Chad is another example of such instability. One of the brightest prospects for the 1980s in this regard, is the emergence in December 1980 of a new government in Uganda which can be expected to formulate and implement new policies for internal development, and the solution of Chad's internal political crisis.

38. In many African least developed countries, the period of the 1970s witnessed expansion in the role of the state in economic activities. In Mali, for example, state enterprises accounted for an estimated 75 per cent of the industrial output while in Botswana, the government is expected to be directly involved in several directly productive sectors of the economy during the 1979-1985 National Development Plan. In Somalia, there has been an expansion in the role of the government in economic affairs through the establishment of co-operatives, state farms and crash programmes. In addition to the intensification of state farms in Ethiopia, banking, insurance, construction and the large-scale manufacturing sectors are among the many businesses that have been nationalized in Ethiopia. There was a policy of extending state control on economic activities in the Comoros in the period 1975-1977, although the situation has been reversed since 1978 when private property rights were guaranteed. The declaration of 'Economic war' in Uganda in 1972 ushered in an economic system in which less and less latitude was allowed to the private sectors, and private sector enterprises were increasingly stifled. In the Republic of Benin, there have been attempts at collectivisation and co-operatives development in agriculture, and, more lately, the establishment of state farms and government marketing monopoly of all cash crops.

39. While the policy shift towards increased state intervention and participation has paid dividends and met with limited success in a few cases, it has led to unmitigated disaster in many countries as the private sector has increasingly been strangulated or subjected to a debilitating uncertainty as to its expected role and future. Most state enterprises in African least developed countries suffer from weak management, a shortage of funds, narrow profit margins if not outright losses, high wage bills and excess capacity; and they have in part been responsible for the poor economic performance of these countries, particularly in industry. In consequence, some remedial measures have been taken in some countries. In Mali, for example, the authorities have already reviewed their policies with respect to the state enterprises sector in view of their many problems and have adopted an action programme to strengthen it through structural improvements, provision of a stronger financial base and a higher degree of managerial independence and responsibility, and outright closure in some cases. In Somalia, the policy of the Government towards parastatal corporations is expected to become more elective with increasing emphasis on efficiency and profitability. In many African least developed countries however, changes of laws and regulations which tend to obstruct rather than facilitate economic activities are yet to take place.

Agricultural and food policies

40. The nature of the subsistence sector in African least developed countries is such that it imposes severe constraints on agricultural policies, both direct and indirect. Nonetheless, a number of African least developed countries have made commendable efforts to boost agricultural production and promote agricultural development through such policies as the provision of subsidized agricultural services and supplies such as fertilizers, farm implements, improved seeds, extension services, easy credit, farmers training and seed multiplication centres, transport, storage and marketing facilities. But the situation in most African least developed countries in the 1970s was that of insufficient attention to the agricultural sector in supportive public investment expenditure, the pursuit of negative measures detrimental to agricultural productivity and the lack of positive policy measures calculated to aid agricultural productivity. Most African least developed countries are yet to embark upon comprehensive policy measures to promote agricultural and food production through the introduction and widespread distribution to farmers of better seedlings and other inputs; inculcation of improved cultural practices; the strengthening of national storage capacity to increase food security through grain reserves; improved marketing and distribution of farm inputs and food crops; calculated efforts to reduce food wastage, before and after harvest, in order to increase food availability even from existing production; and comprehensive training of manpower in the relevant areas of food protection, processing, marketing and price analysis, and improved grain stock management.

41. Drought is a natural phenomenon, but it is well known that its devastating impact can be assuaged through the use of underground water for irrigation, particularly boreholes, thereby reducing the instability of agricultural and food production arising from dependence on rain-fed agriculture. Many of the drought-prone African least developed countries still to acquire an effective capacity for weather forecasting and operation of early warning systems and remote sensing for drought surveillance, their use of underground water, (particularly boreholes) for irrigation and efforts at flood control and intensive exploitation of waterways, rivers, lake basins to regulate water control levels are severely limited. Only the Sudan, Mali, the Niger and Burundi of African least developed countries can be said to have developed irrigation on any tangible scale as an aid to modern agriculture. In Mali and the United Republic of Tanzania, attempts are being made to build up a reserve of stock grains as protection against future droughts, but that is all.

42. Of the negative agricultural policy measures pursued by African least developed countries, the adoption of conservative pricing policies and the setting of official producer prices at unremunerative levels for a number of agricultural crops would seem to be the most significant. The relatively low price paid to producers in the Republic of Benin, the Sudan and the Central African Republic in the 1970s, for example, accounted largely for the decline in cultivation and production of cotton, their most important industrial and export crop. In the Sudan, the minimum price of cotton was pegged at a low level for several years, and this resulted in the shift of farmers from cotton to other crops. In the Central African Republic, the official producer price for cotton in 1977/78 was only twice the price paid in 1970 even though the prices of manufactured goods had risen at least almost threefold over the same period. Examples of other least developed African countries where official producer prices for major agricultural products have remained virtually unchanged or changed very little in current terms in the 1970s in spite of spiralling inflation include the Niger, the Comoros, Ethiopia, Somalia and Uganda.

The result, in all cases, was stagnation and decline in output of controlled crops as farmers curtailed their operations and reduced investments in plant and machinery switched and shifted productive resources into non-controlled crops, which may be non-export crops, widespread smuggling of affected crops across national borders, higher incidence of unharvested crops and crop wastage, and of subsistence production. The few notable exceptions of African least developed countries wherein attractive and remunerative price structures were adopted in the 1970s to encourage agriculture include Malawi, Rwanda, Burundi, the Gambia and Mali. With the generally tight fiscal situation in African least developed countries and their inflexible tax systems, most export commodities were subjected to higher duties and taxes during the 1970s.

43. There were severe shortages in the supply of fertilizers and other basic inputs to farmers in many least developed countries during the 1970s, and this was a source of difficulties to agricultural production and productivity as well. The bottlenecks arose partly from budget deficits but also from foreign exchange constraints, distributional problems and limitations in agricultural research and extension services. In the Sudan, for example, there was a drop of almost 18 per cent in 1978-1979 over 1977-1978 in the average yield per feddar in the traditional principal export crop, cotton, basically because of shortages of fertilizers, insecticides and other agricultural inputs. Cotton production in Benin has also suffered from the same phenomenon of inadequacies of fertilizers supply and shortages of pesticides and other agricultural inputs. In Botswana, the Basic Agricultural Services Programme designed to provide country-side services and inputs to agriculture has been slow in starting, even though its services have now been supplemented by those of the Mountain Livestock Development Programme. In Somalia, the introduction of modern techniques into agriculture has been hampered by lack of pertinent agricultural research and insufficient number of supervisory and extension personnel. Budget deficits have made difficult the financing of such vital farmers inputs as fertilizers and pesticides in the least developed African countries. Extension workers are for the most part thinly spread, ill-paid and generally too ill-equipped to diffuse technological innovations to farmers. Most African least developed countries spend comparatively little on agricultural training and extension services. What is more, there is inadequacy of marketing, storage, transport and other infrastructural facilities. Stringent conditions for lending by financial institutions also prevent small farmers, from having easy access to bank credit.

44. A major factor responsible for the poor performance of the agricultural sector in the majority of African least developed countries was the low level of agricultural investments over the past two decades. In a country like Burundi, where agriculture accounted for about 30 per cent of GDP during the 1970s, the share of agriculture in gross capital formation was less than 18 per cent between 1973 and 1977. Somalia is perhaps a singular example, where about 35 per cent of planned investment has gone to agriculture and the government has been involved since 1975 following the drought, in a continuous programme of agricultural resettlement programmes involving, among other things, the development of economic and social infrastructures for farming and fishing. Mali also has, since 1978/79, embarked upon integrated development projects in agriculture.

High priority was given to agriculture which claimed 35.4 per cent of total investment expenditure under the 1974-1978 plan. Food production, particularly rice, was stressed, using irrigation. In Benin, significant investments have been injected into agriculture with the intension of improving yields and promoting crop diversification. In Malawi, government investment in agriculture doubled between 1977/1978 and 1979/1980, and the current three-year rolling public sector investment programme for the years 1979/1980-1981/1982 covers a total expenditure of K 771 million of which 16.9 per cent is for agriculture, forestry and fishing.

45. The land-holding systems in African least developed countries vary widely among countries and in most cases are obsolete and apparently not conducive to intensity of farming, capital formation and increased output per unit of land. Land is relatively the scarcest factor of production in most African least developed countries, taking into account not only the limited size of the fertile land but also the high cost of reclaiming or irrigating marginal land, the limited capital available and the necessity to meet nutritional requirements of both human and animal population. The land-holding system is mostly crude and subject to arbitrary and non-technical decisions. This notwithstanding, only in a few least developed African countries were comprehensive land reforms undertaken and other measures embarked upon during the 1970s to rationalize land tenure systems. In Lesotho, for example, the Land Bill of 1979 provides for increased security of tenure for farmers and, through its leasing provisions, offers a means of substantially improving the efficiency of land use. In Ethiopia, a Proclamation was made in 1978 making all rural land public property although this has resulted partly in a reduction in the area under cultivation as difficulties arose with former landlords. The issue of land reform remains as pressing as ever for majority of the African least developed countries.

Industrial Policies

46. The industrial sector in African least developed countries is small, limited in shape, and largely based on the processing of agricultural and forestry products, and the relatively simple manufacture of some import substitutes. The poor performance of the agricultural sector, the small size of the domestic market, lack of capital, shortage and insufficient supply of raw materials and skilled manpower, inefficient management, ineffective national development and ancilliary institutions, underpricing of industrial products, excessive cost of production, lack of repair and maintenance facilities, poor processing and fabrication, the small size of production units, the weak absorptive capacity and underdeveloped infrastructure, the development of the technology of synthetics and the protectionists practices of developed countries are among the most important constraints on industrial growth in African least developed countries.

47. In order to rectify and advance the slow pace of industrialisation, most African least developed countries resorted to various strategies and policies during the 1970s, and, in countries such as Malawi and Republic of Tanzania, substantial investment were allocated to industry in their investment programmes. Import substituting industrialization, aimed at easing balance of payments pressures and providing employment was pursued initially in all African least developed countries except the Gambia, the Comoros and Burundi where the manufacturing sector is non-existent or extremely weak. Export promotion policy was pursued by some African least developed countries. This policy was successful with some countries, as it enabled them to exploit their relatively abundant labour and natural endowment and to earn additional foreign exchange earnings. Benin, for example, with its large vertically integrated textile mills, was able to capture part of the textile market in the Federal Republic of Germany. But the development of export industries was generally not successful.

48. Efforts at import substitution have not produced the desired effects, given the generally small nature of the domestic markets of African least developed countries and their low level of effective demand. The efforts have been a relative failure, leading to the establishment of high cost industries and in many cases, vastly underutilized capacities. Excess capacities apart, most import substituting industries have not been able to absorb enough of the growing labour force in the African least developed countries due to inefficient management, shortages of imported raw materials, spare parts and maintenance facilities.

49. In their efforts to promote and encourage imports in substituting and agro-allied industrial growth many African least developed countries have adopted easy monetary and fiscal policies. In many cases, the generous concessions and tax exemptions granted to import substituting programmes have resulted in accelerated expansion of capital goods imports and adoption of unduly capital-intensive techniques of production, regardless of the suitability of the technology involved and the countries' comparative advantage of abundant labour supply. For countries relying on indirect taxation for the most, the possibilities of fiscal concessions in terms of tax-free holidays and exemptions from import duties have been severely limited by the budget constraints in many African least developed countries. In a few African least developed countries, some of the industrial policies pursued in the late 1970s were directed to remedying the problems of unwise extension of import substitution programmes while vigorous efforts were made to rehabilitate previously unsuccessful industries and to create bodies for industrial and export promotion. In countries such as Mali and Guinea for example, attempts have been made to revive the growth of industries by forming production brigades as the primary and continuous sourse of raw materials supply.

50. Almost all African least developed countries have established industrial development institutions and banks. While these institutions have been active in countries such as the Sudan, Botswana, Lesotho, for example, they have hardly functioned effectively in such countries as Ethiopia where the joint Agricultural and Industrial Development Bank has since inception been largely confined to the agricultural sector in the operations. Owing to the general shortage of managerial skills and local capital, many African least developed countries and their established agencies for industrial development have made it a policy objective to engage in joint ventures involving foreign capital. But these efforts together with the investment pioneering efforts of the development banks of the least developed countries have not been unformally successful due to undercapitalization and management inadequacies of the institutions themselves and the insufficient funds generated for further investment. In many cases, the efforts of the industrial development banks, at establishing or encouraging industrial enterprises have been hampered by shortages of raw materials, poor transport facilities, foreign exchange constraints and the inadequacy of local financial and technical advisory services, skilled labour and knowhow, coupled with the lack of a strong cadre of local entrepreneurs and the high cost of bank industrial infrastructure.

51. Some African least developed countries have attempted to promote indigenous industrialization which develops projects with low capital in labour ratios and encourages greater utilization of local skills, thereby expanding the role of small and medium-sized industries in their economies. Most African least developed countries kept their investment laws under review with a view to making their provisions more liberal. Thus, for example, the Government of Upper Volta tried to encourage the growth of small and medium-sized industries through its credit policy.

52. In all, it seems that most of the policies pursued in the 1970s were mainly directed towards the remedy of problems arising from adopting ambitious import substitution programmes and from sluggish export markets, and to issues as to which pattern of industrialization developments should receive more emphasis. Countries with high unemployment pressures tried to pay considerable attention to establishing employment-creating industries, while others facing rising labour costs favoured heavy industries. Countries with dominant state-owned enterprises, were engaged in rehabilitation policies to make the public sector industries more profitable. Many of the policies measures adopted in African least developed countries were directed towards the provision of concessions to attract foreign capital. It would seem that the African least developed countries, with their weak internal demand situations and structural bottlenecks and constraints, would need to offer even more concessions in the future if they were to achieve greater success in attracting foreign investment. It is against this background that greater African economic and industrial co-operation is called for in the 1980s, and the collapse of such regional organisations as the East African Community is to be regretted. The failure of the East African Community, for example, has adversely affected manufacturing development in African countries by negating some of the erstwhile spectacular successes in inter-African trade and co-operation.

53. There were no discernible energy policies in many African least developed countries in the 1970s in the area of energy conservation or the harnessing of alternative energy sources, in spite of the escalated price increases in oil. Very few African least developed countries have given emphasis to demand conservation measures or reformed their energy pricing policies with the aim of reducing the excessive and general subsidies enjoyed by domestic users of energy. The Gambia for instance, increased tariffs for electricity in 1974, following the big price increase in oil, and again in 1975, but these were generally less than the increase in the cost for generating power. Few African least developed countries embarked long-term measures in the 1970s to bring about shifts in the structure of energy supplies away from imports. Yet energy constraints are sure to constitute one of the significant structural bottlenecks to economic development in African least developed countries in the 1980s.

Monetary, fiscal and external adjustment policies

54. The serious inflationary tendencies which emerged in the least developed countries have constrained the ability of the Governments to increase taxation, both direct and indirect. Domestic savings in real terms remained stagnant if not declining. What is more, in most of the African least developed countries, only a small portion of household savings finds its way to productive investment although the rural areas of these countries potentially have a positive savings capacity. Increasing attention is therefore being devoted to raise the level of public savings to meet the growing needs of economic and social development. For instance, targeting a 3.5 per cent growth in GDP per annum between 1970-1980 would have required raising the rate of savings from 8 to 10 per cent during the same period. In other words, the marginal rate of savings would have had to increase by 14.8 per cent yearly. If this were to be feasible, then the marginal rate of public savings would have had to increase by 20 per cent per annum which is overly ambitious.

55. The present average annual rate of inflation of over 15 per cent, which is high compared with the experience of the developed countries is eroding the ability of the least developed countries to export. In countries where the shortfalls in export proceeds and import capacity were large, policies of adjustment in the form of monetary and fiscal measures, though sometimes harsh, have proved to be less successful, and the growth momentum was disrupted. Even more saddening has been the fact that the emerging weakness of growth in import demands of the industrial countries, coupled with protectionist actions is limiting the capacity to export. Foreign exchange earnings are dimmed by these developments, and the high cost of borrowing in international financial markets tend to frustrate the development momentum. The substantial but unavoidable wage increases in the private and public sectors in number of countries have created fiscal imbalances. In some countries, the domestic adjustment effort needed to be complemented by an exchange depreciation in order to improve the balance of payments. As it stands, however, many African least developed countries are not yet convinced of the wisdom of currency depreciation, fearing that such measures might contribute to accelerating inflationary tendencies.

56. In an attempt to control inflation, both the United Republic of Tanzania and Somalia maintain an elaborate system of price controls. In the Sudan, restraining fiscal and monetary policies and the reform of the exchange and trade systems were instituted between 1978 and 1980. In Botswana, the Pula was revalued while in Ethiopia, income taxes, land use fees, excise taxes on a number of consumer goods were raised in 1978 and 1979. These measures along with the similar ones taken in other African least developed countries have turned out to be ineffective adjustment measures.

57. In many of the African least developed countries, central banks are empowered to determine the cost and availability of credit, using quantitative and qualitative controls. The possibility of applying these traditional tools of monetary management is, however, limited by the structural characteristics of the money market as their effective functioning is predicated on the existence of a wide variety of financial institutions and instruments. However, the banking and financial system in these countries is undeveloped to exercise significant influence on the money market. This should not, however, be interpreted to mean that the role of central banks in regulating the volume of money was entirely passive. For instance, in Mali, the main credit policy instrument of the central bank has been the setting up of rediscount ceilings for short-term credit. Commercial banks exceeding the ceiling had to place non-interest bearing deposits at the central bank amounting between 30-120 per cent of the amount of credit in excess of the ceiling. The ceiling requirement, however, precludes credit extended for export and small scale enterprises. In some of the African least developed countries monetary policy is designed in a manner which is compatible with balance of payments and external reserves objectives. In Somalia, for instance, foreign exchange is rationed by curtailing requests that result in excessive inventory accumulations. In Ethiopia, there is a high degree of correlation between economic activities and the coffee export boom. After reaching its peak in times of favourable world market trends, economic activity bounces down when prices start to sag in the international market. During this time, the monetary authorities curtailed import demand through foreign exchange rationing. This has been possible via a policy of credit restraint by the Central Bank with its consequent effects on money supply. In the Gambia, a minimum liquidity ratio which is raised from time to time is prescribed for commercial Banks. However, the effectiveness of this tool as a means of credit control has been mitigated by the resource of the Government on the banking system which is contributing to the increase of the liquidity of the banks. Thus, in place of the liquidity ratio, the reserve requirement ratio is now being reactivated. In Central African Republic, the imposition of obligatory reserves and rediscounting ceilings are in force, while the Central Bank is prohibited from providing advances to the government in excess of 20 per cent of the budgetary revenue of the previous year. In the Niger, the central bank favours financing the rural sector and industry while according to a low priority for the development of the commercial sector.

V. Development policies and options in the 1980s

58. While it is difficult to generalize, it is clear nevertheless from the review and analysis above that African least developed countries are caught in a trap from which they cannot easily extricate themselves. The countries face a number of serious problems which include drought affecting adversely agricultural production on which almost 70 per cent of the population depend directly or indirectly, low productivity growth, unemployment and mass poverty. In addition to the growth in agricultural and food production rates far less than population growth, these countries faced sharp rises in import prices including dramatic increases in oil prices, severe fluctuations in export prices and deterioration in the terms of trade. All these at a time when emerging inflationary tendencies had seriously constrained the ability of the governments to increase taxation, both direct and indirect. Indeed, the indications of the preliminary estimates for the 1980s available in the ECA secretariat are that the import bill for both food and oil are now absorbing over half of the total export proceeds of African least developed countries. The serious foreign exchange shortages that have emerged in these countries have not only constrained their abilities to acquire the essential imports of consumer and capital goods, they have led to inflexibilities and constraints on resource use and pursuit of new policies.

59. Except for a few countries however, the main thrust of the domestic policies pursued by African least developed countries in the 1970s, with IMF support, has been directed towards achieving temporary internal and external balance, often at the cost of further contraction in the level of domestic economic activity. While this approach has in some case provided a welcome relief to many African least developed countries and some protection of their economies from the extreme repercussions of the fluctuations in export and import prices in the short run, it has completely missed or failed to address the crucial long-term issues of development and structural adjustment in the African least developed countries. The current problems of African least developed countries, in spite of their immediacy and urgent call for palliatives, are essentially a reflection of fundamental physical and economic inadequacies at home and international disequilibrium. As such, they call not just for short-term measures but additionally and, in the end, long-term fundamental adjustment policies to bring about structural change. African least developed countries will need to improve their resource base and embark on a programme of economic diversification if they are to solve their basic problem of underdevelopment and mass impoverishment. They need to achieve self-sufficiency in food production and to promote exports and industries that could supply the agricultural and food sector with its essential and vital needs of fertilizers, regular water supplies, agricultural machinery, new seeds, etc. This requires substantial resources for fixed capital formation. In summary therefore, African least developed countries require not only short-term aid and stabilisation assistance, without which many of them may not even survive in the immediate, but also long-term assistance and concessionary aid to improve both their planning capabilities and absorptive capacity as well as their potentialities for efficient resource allocation and management in order to achieve self-sufficient, self-reliant and self-sustaining growth in the long run.

60. The above scenario is in line with the Comprehensive New Programme of Action for the least developed countries launched at UNCTAD V in resolution 122(V) in the form of an Immediate Action Programme (1979-1981) and A Substantial New Programme of Action for the 1980s. For the immediate term, UNCTAD resolution 122(V) had emphasized the need for an immediate expansion of resources for the implementation of projects already identified or in the pipeline in the fields of nutrition, health, education, transport and communications, housing and job problems. In the field of agriculture the need for massive support for the supply of fertilizers and assistance to improve management, maintenance and repair and to improve the efficiency of existing infrastructure was stressed. It was also pointed out that financial and commodity support on an extensive scale was necessary for local

small-scale employment generation. The long-term policies for the least developed countries concern mainly the task of achieving a fundamental transformation of their economies and stresses among other things, (a) fuller exploitation of natural resources, (b) the development of an industrial base, (c) the establishment of optimal production units such as small-scale industries linked to the relevant sectors especially agriculture and the informal sector. In connection with these two programmes, increased concessional assistance is required from both capital surplus and industrial countries to avoid declines in already unsatisfactory growth rates in these countries. The developed countries should, in particular, avoid protectionist measures and other measures that might restrict the access of the least developed countries to their capital markets. The latter should, in turn, contribute to the maintenance and expansion of the necessary capital inflows by following policies designed to bloster confidence regarding their future economic prospects.

61. Against this background, the two sets of projections (or scenarios) recently made by the ECA for the individual, sub-groups and the entire African least developed countries as a whole 7/ is worthy of consideration, particularly in terms of the implicit development alternatives and options, and their policy implications. The first set of projections was based on the assumption of no drastic change in the historical structural parameters and the economic policies pursued in African least developed countries. This set of projections tried to illustrate the nature of the main direction and areas of policy changes that have to be attempted if an improvement in performance is to be achieved. The second set of projections tried to simulate and derive the implications for a target growth rate in GDP of about 6 per cent yearly for these African least developed countries during the 1980s.

62. On the basis of past trends, and in the absence of drastic domestic and international measures to assist the African least developed countries, the forecasts for the 1980s were of a disastrous and hard period. The African least developed countries as a whole would continue to grow very slowly at around 3 per cent per annum or just keeping pace with the growth rate of population. For the different subgroups, the forecasts point to a trend of growth performance varying directly with the level of their per capita income. The first subgroup (of per capita above $US 110) was forecast to grow at overall average annual rate of 3.9 per cent in 1980-1985 and 4 per cent in 1985-1990. In comparison, the fourth subgroup (of per capita less than $US 75) is forecast to grow at an average rate of about 2.7 and 2.8 per cent in the corresponding periods implying a near stagnation in per capita income. Sectorally, the African least developed countries, on basis of historical trends are forecast to achieve a mere 1.8 per cent annual growth in agriculture in the 1980s thus implying declining per capita agricultural output. Industry is forecast to grow at 5.5 per cent yearly for the first group of countries while for the poorer countries industrial growth would only be around 4 per cent and less.

63. On the demand side, the forecasts on the basis of past patterns, consumption would grow much faster than GDP resulting in a continuously declining savings as a percentage of GDP. The decline in the saving rate would be most serious in the poorest groups.

7/ For the full details of parameters and results, see "Quantitative Analysis on the Problems and Perspectives of the African Least Developed Countries in the Framework of the Third United Nations Decade" ECA/CONF/LDCs.3. The projections were made on the basis of constant prices and do not therefore take into account the effects of changes in prices of commodities such as oil which are capable of affecting the growth of the least developed countries dramatically.

Investments are forecast to be higher in the subgroups with higher per capita GDP with, for example, 8.5 per cent per annum growth in real investment for group I and only 0.9 per cent yearly real increase for group IV. Exports as a percentage of GDP are forecast to be very low again especially for the lowest groups such that for the African least developed countries as a whole a trade gap in constant terms of around 7 per cent of GDP is forecast for 1990 as compared to a gap of 4.7 per cent in the forecast base year 1975. This would imply that net external resources inflow at constant prices had to increase more than two fold between 1975 and 1990.

64. The implications of the forecast on the basis of the continuation of past trends and policies are clearly disastrous. Per capita income would remain almost the same with mounting mass poverty, unemployment and social upheavals. There is therefore an urgent case for making some structural changes. In a scenario of a target growth of GDP of 6 per cent yearly in the 1980s, it was projected that agriculture and industry will have to grow much faster than in the past for the group of least developed countries as a whole. Agriculture will have to attain a growth rate of 4 per cent yearly while the industrial sector will have to grow at an average annual rate of about 8 per cent. To attain these growth rates requires, inter alia, improved capital efficiency, increased labour and land intensity and productivity, a growth rate in real investment of around 7 per cent and increased domestic savings. A target growth rate in GDP of 6 per cent yearly, and with the domestic savings rate remaining at the historical level, will result in a savings gap projected to increase at an average annual rate of 8 per cent in real terms. These gaps do not account for the change in the terms of trade and the large rise in oil prices if continued. The trade gap will only be brought to controllable levels if a specific, and perhaps optimistic assumption of an average annual growth rate of 7 per cent in real exports is fulfilled.

65. A comparison between the forecasts and a planned scenario gives some indications of the implications for the eradication of mass poverty, basic needs satisfaction and the necessity for regional co-operation. The historical scenario implies a nearly stagnating per capita income and hence no mitigation of mass poverty. The second planned scenario of a target 6 per cent growth in GDP implies an average annual increase of about 3.6 per cent yearly in real per capita income (taking a 2.4 per cent average growth in the total population of the African least developed countries). Obviously, even this accelerated increase in real per capita would not seem to be sufficient to satisfy basic needs and at the same time raise domestic resources required for a self-sustained growth and self-sufficiency at the national level.

66. The parameters and the implications of the alternative scenarios clearly show that the African least developed countries have had, and may well continue to have, a very poor economic performance unless special measures, policies and development strategies are formulated and implemented. The policies that emerge as critically important relate both to the short run and the long run. Of paramount importance in the short run is the necessity for the African least developed countries to achieve self-sufficiency in food. This calls for urgent action to increase overall agricultural output to grow by about 4 per cent yearly over the coming decade which in turn, necessitates (a) increasing the productivity of both land and labour, (b) substantially increasing the arable land area through irrigation and land reforms, (c) increasing investment in agriculture with a better and more rational balance between investments for export-crop production and investments for food-crop production, (d) extensive planning of integrated rural development programmes, (e) increasing extension services and agricultural research, (f) improving the rural/urban terms of trade, and (g) making better organization and training and the fuller utilization of manpower.

67. From the earlier observations it seems that the poorer countries of the group of least developed countries are more likely to suffer from a savings gap while the less disadvantaged countries are more likely to feel the constraints of a trade gap. Hence appropriate approaches to development assistance might seem desirable. Investment in the poorer countries is miserably low and their consumption propensities, both average and marginal, are high. For these countries it is desirable that international aid for capital development should be added to that already given for the purpose of meeting essential consumption needs. These countries require aid in sufficient quantities to enable them to cross over from the level of almost zero growth rate to moderate rate of growth in investment. For those countries where savings are being generated at some level, international efforts should assist these countries' earnings through exports by giving them better prices for their products, by the creation of such funds in order to stabilize the prices of their exports and by offering them better terms on a preferential basis.

68. The countries themselves will need to undertake considerable and drastic changes in their consumption levels. Specifically, there will be a need to lower both the marginal and average propensities to consume to around 85 per cent. Concomitantly, imports and particularly the marginal import rates for consumer goods have to be lowered substantially. These efforts on consumption and imports of consumer goods must also be accompanied by an increase in the efficiency of capital so as to ensure growth and to improve the real standard of living. Some of the factors causing the high incremental capital/output ratios in the economies of these countries have to be improved. These include the minimization of undercapacity utilization through, inter alia, integrated regional approaches to industrial development and improved management of the productive enterprises, reduction of long gestation periods for projects making more suitable projects that lead to quick production of physical commodities. Also, realizing that in many instances, the poor utilization of manpower potential is at the core of efforts to alleviate poverty in particular and to improve economic performance in general, these countries' policies should emphasize the fuller utilization and better training of their manpower resources.